

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

LAB-04 SIL-01 SAM-01 OMB-01 IO-10 /060 W

----- 054337

R 131724Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2114

INFO AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY PARIS

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 13091

DEPARTMENT PLEASE PASS TREASURY, CEA, FRB

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: INDUSTRIAL PRODUCTION FORECAST

REF: STATE 180524, BONN 6827

1. THE ACTUAL INDUSTRIAL PRODUCTION DATA IS IN FOR THE FIRST HALF OF 1975, AND IN SEASONALLY ADJUSTED TERMS (THE CONCEPT USED THROUGHOUT THIS CABLE) IT REFLECTED A 5.1 PERCENT DROP FROM THE LEVEL OF THE PREVIOUS HALF. COMPARING FIRST HALF 1975 WITH FIRST HALF 1974 SHOWS A DECLINE OF 8.5 PERCENT. SINCE THESE RESULTS VARIED LESS THAN 0.5 PERCENT FROM THE LAST EMBASSY FORECAST, THE EMBASSY USED MUCH THE SAME METHODOLOGY IN THE CURRENT FORECAST AS WAS DESCRIBED IN THE PREVIOUS MESSAGES IN THIS SERIES. THIS IS TO SAY THAT WE APPLIED TO THE PRESENT CASE THE RECOVERY PATH OF 1967-68, MAKING ADJUSTMENTS FOR THE CHANGED CURRENT CIRCUMSTANCES.

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2. ONE TECHNICAL ALTERATION IS THAT THE BASE YEAR FOR

THE INDEX NUMBERS USED IN THE CURRENT INDUSTRIAL PRODUCTION FORECAST HAS BEEN REVISED TO 1970 FROM THE 1963 BASE USED IN PREVIOUS FORECASTS, THEREBY ACCORDING WITH THE BUNDESBANK-PUBLISHED SERIES.

3. INCLUDED IN THE ASSUMPTION BASE IS THE EFFECT OF A RELATIVELY MODEST DM 4-5 BILLION GOVERNMENT ECONOMIC STIMULATION PROGRAM IN THE SECOND HALF OF 1975. THE EFFECTS OF THIS ARE NOT EXPECTED TO LAST LONG, HOWEVER, AND THERE WILL PROBABLY BE A WINTER LAG (EVEN IN SEASONALLY ADJUSTED TERMS) THAT COULD MOTIVATE THE ELECTION-ORIENTED GOVERNMENT TO FURTHER EXPANSIONARY MEASURES IN THE LATE WINTER - EARLY SPRING 1976 THAT WE PROJECT WOULD TAKE HOLD IN THE THIRD QUARTER OF 1976. THESE WOULD COINCIDE WITH A PROBABLE PICK UP IN FOREIGN DEMAND AND THE ACCUMULATED UPWARD CYCLICAL PRESSURES IN THE DOMESTIC ECONOMY THAT WOULD HAVE TAKEN PLACE ANYWAY. THE SIZE OF THIS FORECASTED EARLY 1976 EXPANSIONARY PROGRAM WOULD DEPEND UPON HOW ACCURATELY THE GOVERNMENT IS ABLE TO JUDGE THE MAGNITUDE OF THE LATTER, COINCIDENTAL AND POSITIVELY REINFORCING DEVELOPMENTS. THE IMPORTANCE OF THE OCTOBER 1976 PARLIAMENTARY ELECTIONS TO THE SPD AND THE EVER-LARGER UNEMPLOYMENT PROBLEM LOOMING AHEAD LEAD US TO CONCLUDE THAT SUCH A SCENARIO IS FEASIBLE FOR THE GERMAN POLICY MAKERS TO CONTEMPLATE.

4. TO BE NOTED IS THAT CONSIDERABLE EXCESS CAPACITY EXISTS (ABOUT 25 PERCENT) THAT WILL NEED TO BE ABSORBED, PRODUCTIVITY INCREASES WILL BE QUITE HIGH (OVER 4 PERCENT) DURING THE FIRST YEAR OF THE RECOVERY, AND THE REACTION ON THE UNEMPLOYMENT RATE TO A RESUMPTION OF POSITIVE INDUSTRIAL GROWTH WILL BE VERY DELAYED. ACCORDING TO THE GROWTH PATH DESCRIBED IN OUR SCENARIO,

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 13091

THE IMPROVEMENT IN UNEMPLOYMENT WILL NOT BE FELT UNTIL 1977, UNTIL WHICH TIME THERE WILL BE CONTINUED EROSION OF JOBS. AND AFTER THAT, PERHAPS THERE WILL BE ONLY A MODERATE IMPROVEMENT UNTIL THE NEXT CYCLICAL DOWNTURN WHICH WOULD LIKELY COMMENCE IN 1978. THE POLITICAL REPERCUSSIONS OF SUCH DEVELOPMENTS REMAIN TO BE SEEN, BUT THE SITUATION SEEMS LESS OPTIMAL FOR THE SPD THAN EARLIER THOUGHT.

5. THE TABLE AT THE END OF THIS CABLE REFLECTS A 3.9 PERCENT GROWTH IN INDUSTRIAL PRODUCTION IN THE SECOND HALF OVER THE FIRST HALF 1975, BUT A 5.2 PERCENT DROP FOR THE YEAR AS A WHOLE COMPARED WITH 1974. IN 1976 THE FORECAST IS FOR 8 PERCENT MORE PRODUCTION THAN IN 1975, WITH THE FIRST HALF REGISTERING 2 PERCENT GROWTH AND THE SECOND HALF ABOUT 8 PERCENT, COMPARING EACH HALF WITH THE ONE PREVIOUS.

6. INDUSTRIAL PRODUCTION INDEX --  
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SEASONALLY ADJUSTED (1970 EQUALS 100)

|             | 1973 | 1974 | 1975 | 1976 |
|-------------|------|------|------|------|
|             | ---- | ---- | ---- | ---- |
| 1ST QUARTER | 112  | 114  | 104  | 108  |
| 2ND QUARTER | 112  | 112  | 102  | 110  |
| 3RD QUARTER | 112  | 110  | 105  | 115  |
| 4TH QUARTER | 113  | 107  | 109  | 120  |

NOTE: 1973, 1974 AND FIRST HALF 1975 FROM BUNDESBANK;  
SECOND HALF 1975 AND FULL YEAR 1976 PER  
EMBASSY FORECAST.

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## Message Attributes

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**To:** STATE  
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